

Tennessee State Veterans' Homes Board

**For the Year Ended
June 30, 1996**

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January 26, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee State Veterans' Homes Board
2865 Main Street
Humboldt, Tennessee 38343

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State Veterans' Homes Board for the year ended June 30, 1996. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The board has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
97/040

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1996

AUDIT OBJECTIVES

The objectives of the audit were to consider the board's internal control structure; to determine compliance with laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Inadequate Controls Over Foundation Donations

Because recordkeeping for donations was inadequate, management cannot be assured that donations intended for specific purposes were spent accordingly. Also, checks were not deposited timely (page 9).

Payments Not Made in a Timely Manner

The board has not been making payments to vendors within 45 days. Also, the Medicaid patients' Veterans Administration per diem has not been reimbursed to Medicaid (page 10).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1996

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Tennessee State Veterans' Homes Board For the Year Ended June 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee State Veterans' Homes Board. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

LEGISLATIVE HISTORY

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. (Facilities located in Murfreesboro and Humboldt are operating. The board has plans to build a third facility in East Tennessee.) The board has the authority to employ an executive director and other employees; to incur expenses as may be necessary for the proper discharge of the board's duties; to establish policies regarding the rates for patient care in a state veterans' home; and to incur debts, borrow money, issue debt instruments, and provide for the rights of the holders of the debt instruments.

The board consists of ten members. The Commissioner of the Tennessee Department of Veterans Affairs serves *ex officio* as a voting member of the board. The remaining nine members are appointed by the Governor, three from each of the three grand divisions of the state. The Governor appoints a member of the board to serve as chairman. Each board member must be a citizen of the state and an honorably discharged veteran.

ORGANIZATION

Prior to November 1, 1994, the board's operations were carried out under the supervision of the executive director and controller, both appointed by the board. During the 1995 fiscal year,

the controller resigned. As of November 1, 1994, the board contracted with ServiceMaster Diversified Health Services, L.P., (Diversified) to manage both the financial and clinical operations of the Murfreesboro facility as well as those of the Humboldt facility upon its opening. The Humboldt facility admitted its first resident on February 7, 1996.

Diversified employs an administrator to oversee daily operations of each facility. The administrator then hires the managerial staff including the Director of Nursing, Business Office Manager, Director of Medical Records, Director of Social Services, Food Services Manager, Activities Coordinator, Housekeeping Superintendent, Maintenance Supervisor, and all other facility employees. Although these employees are hired by the administrator from Diversified, they are employees of the board.

An organization chart is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995. The Tennessee State Veterans' Homes Board has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The board filed its report with the Department of Audit on March 5, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the board has corrected previous audit findings concerning cash-receipting practices, inventory procedures, and availability of federal rules and regulations for the construction grant.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the Tennessee State Veterans' Homes Board's financial statements for the year ended June 30, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations, which follow the report on the internal control structure. Consideration of the internal control structure disclosed no material weaknesses.

Compliance with Laws and Regulations

The results of our audit tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Tennessee State Veterans' Homes Board. In our opinion, the statements included in this report present fairly, in all material respects, the financial position of the board as of June 30, 1996, and the results of its operations and cash flows for the year then ended. The independent auditor's report follows the compliance report.

**Report on the Internal Control Structure Based on an
Audit of the Financial Statements Performed in Accordance With
*Government Auditing Standards***

March 14, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of and for the year ended June 30, 1996, and have issued our report thereon dated March 14, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The board is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the board's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We noted the following reportable conditions:

- Inadequate controls over foundation donations
- Payments not made in a timely manner

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported to the board in a separate letter.

The Honorable W. R. Snodgrass
March 14, 1997
Page Three

This report is intended for the information of the General Assembly of the State of Tennessee, management, and the board of directors. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

FINDINGS AND RECOMMENDATIONS

1. Inadequate controls over foundation donations

Finding

Because recordkeeping for donations was inadequate, management cannot be assured that donations intended for specific purposes were spent accordingly. The Tennessee State Veterans' Home Foundation, Inc., received \$13,965.42 in donations from various organizations and individuals, most of which were received as the Humboldt facility neared completion. The facility administrator and foundation president maintained copies of some of these checks. A review of these copies showed that several of these donations were intended for a specific facility and/or purpose. Five checks totaling \$1,200.00 received during fiscal year 1996 specified the purpose of the donation as televisions for Humboldt. In addition, several checks received after fiscal year-end were designated for purchase of an ice cream machine, chairs and cabinets for the activity room, physical therapy equipment for a specific resident, and a resident Christmas party. However, because sufficient records were not kept, it is not possible to know how much of the donations were designated for a specific purpose or if designated donations had been used for the intended purpose. Thus, management cannot ensure that obligations to donors are fulfilled.

Also, checks were not deposited timely. The receptionist at the Humboldt facility has been instructed to forward donation checks to the executive director or his assistant. The executive director is responsible for receipting the donations and forwarding the checks to the foundation president. The president then gives these checks to a clerk at the Murfreesboro facility to make the deposit. A review of copies of donation checks dated in November 1996 revealed that the checks were not deposited until January 1997. Time lags cost the foundation interest and increase the likelihood that checks will be lost. Since receipts were not written for these checks, it is not possible to compare receipts to deposits to ensure all donations have been deposited.

Furthermore, duties are not adequately segregated. One person has access to receipts and bank statements and can also sign checks. The failure to segregate duties increases the potential for errors and irregularities to occur and go undetected.

Recommendation

Proper recordkeeping should be established for the foundation's cash receipts. Pre-numbered cash receipts should be written as soon as cash or checks are received, and the funds should be deposited immediately. A listing of all receipts, identifying any donations designated for a specific purpose, should be forwarded to the executive director and foundation president. The foundation president should ensure that designated donations are used for the intended purpose. Also, cash receipting and disbursement duties should be segregated to the greatest extent possible.

Management's Comment

We concur in part. Attorney General opinion U94-037 states that the Tennessee State Veterans' Home Foundation, Inc., is a nonprofit corporation and could not be treated as a component of the board's other operations. This finding is for a corporate entity separate from the board. However, we have implemented the accounting safeguards and practices as recommended.

Rebuttal

Although the foundation is a separate legal entity, it is included in the Tennessee State Veterans' Homes Board's financial statements, because it meets the Governmental Accounting Standards Board's definition of a component unit for financial reporting purposes. This determination is based in part on the fact that the foundation exclusively benefits the residents and programs of Tennessee State Veterans' Homes. In addition, in the event the foundation is dissolved, all assets belonging to the foundation become the property of the board.

2. Payments not made in a timely manner

Finding

The Tennessee State Veterans' Homes Board failed to pay invoices in a timely manner. Review of the Humboldt facility's "Accounts Payable Open Item Report" at June 30, 1996, revealed that 11 invoices remained unpaid 45 days after the invoice date. Also, eight of 18 other invoices tested (44%) were paid late. Subsequent to the audit period, the board stopped paying the Humboldt facility's management fees timely. Furthermore, reimbursements to Medicaid for Medicaid patients' Veterans Administration per diem have not been made.

If invoices are not paid timely, the board could lose purchase discounts, relations with vendors and contractors could deteriorate, and late fees could be assessed. If Medicaid is not reimbursed timely, the Medicaid liability could increase to a level where repayment is difficult.

Recommendation

The board should ensure that invoices are paid within 45 days of receipt. Also, the board should ensure that Medicaid is reimbursed for the Veterans Administration per diem, when applicable.

Management's Comment

We concur in part. Invoices are being paid within time frames under contract provisions. Veterans Administration per diem repayments were suspended at the request of Medicaid officials until the determination of a liability is established.

Rebuttal

Some of the invoices referred to in the finding were paid up to 172 days after the invoice date, and some were to vendors not under contract. Also, the board should work with Medicaid officials to resolve the Veterans Administration per diem issue.

**Compliance Report Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards***

March 14, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of and for the year ended June 30, 1996, and have issued our report thereon dated March 14, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the board is the responsibility of the board. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

The Honorable W. R. Snodgrass
March 14, 1997
Page Two

We did, however, note certain immaterial instances of noncompliance that we have reported to the board in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee, management, and the board of directors. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

Independent Auditor's Report

March 14, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of June 30, 1996, and June 30, 1995, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the board. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State Veterans' Homes Board, as of June 30, 1996, and June 30, 1995, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass
March 14, 1997
Page Two

Our audits were conducted for the purpose of forming an opinion on the financial statements, taken as a whole. The accompanying financial information, following the notes to the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements, taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued reports dated March 14, 1997, regarding our consideration of the board's internal control structure and its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
ASSETS		
Current assets:		
Cash (Note 2)	\$ 319,034.25	\$ 200,229.13
Investment (Note 2)	25,000.00	25,000.00
Resident accounts receivable:		
Private	709,030.69	830,561.57
U.S. Department of Veterans Affairs	389,008.92	229,586.67
Primary government	129,992.69	225,432.00
Allowance for doubtful accounts	(227,949.25)	(487,755.75)
Medicare cost settlement receivable	339,692.88	-
Medicaid cost settlement receivable	29,733.76	2,833.76
Due from U.S. Department of Veterans Affairs	411,432.52	1,360,544.00
Inventories	48,384.06	14,471.14
Prepaid items	8,970.24	6,927.90
Total current assets	<u>2,182,330.76</u>	<u>2,407,830.42</u>
Restricted assets (Note 3):		
Cash (Note 2)	<u>1,066,851.13</u>	<u>1,528,792.99</u>
Total restricted assets	<u>1,066,851.13</u>	<u>1,528,792.99</u>
Other assets:		
Deposit with management company	10,000.00	10,000.00
Unamortized bond issuance costs	143,016.11	149,333.04
Unamortized preopening expenses	153,032.94	40,093.47
Total other assets	<u>306,049.05</u>	<u>199,426.51</u>
Fixed assets:		
Land	194,244.00	194,244.00
Buildings and improvements	10,783,877.55	3,924,130.95
Accumulated depreciation - buildings and improvements	(600,783.59)	(421,884.85)
Furniture and equipment	1,353,308.69	616,876.81
Accumulated depreciation - furniture and equipment	(337,725.70)	(251,965.88)
Construction in progress	-	4,209,644.07
Total fixed assets	<u>11,392,920.95</u>	<u>8,271,045.10</u>
Total assets	\$ <u><u>14,948,151.89</u></u>	\$ <u><u>12,407,095.02</u></u>

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable and accruals	\$ 704,850.10	\$ 515,045.22
Due to primary government	728,379.79	799,052.01
Amounts advanced by management company	73,133.77	-
Medicare cost settlement payable	-	35,630.72
Amounts held in custody for others	88,864.95	65,799.14
Medicaid current financing	-	35,272.26
Bonds payable (Note 4)	<u>115,000.00</u>	<u>60,000.00</u>
Total current liabilities	<u>1,710,228.61</u>	<u>1,510,799.35</u>
Noncurrent liabilities:		
Bonds payable, net of unamortized discount (Note 4)	5,302,224.44	5,414,694.47
Advance from primary government (Note 5)	<u>200,000.00</u>	<u>200,000.00</u>
Total noncurrent liabilities	<u>5,502,224.44</u>	<u>5,614,694.47</u>
Total liabilities	<u>7,212,453.05</u>	<u>7,125,493.82</u>
Equity:		
Contributed capital (Note 6)	<u>9,153,341.40</u>	<u>6,250,785.88</u>
Retained earnings:		
Reserved for foundation	53,040.18	41,263.19
Unreserved	<u>(1,470,682.74)</u>	<u>(1,010,447.87)</u>
Total retained earnings	<u>(1,417,642.56)</u>	<u>(969,184.68)</u>
Total equity	<u>7,735,698.84</u>	<u>5,281,601.20</u>
Total liabilities and equity	<u>\$ 14,948,151.89</u>	<u>\$ 12,407,095.02</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Operating revenue:		
Resident service revenue less contractual adjustments of \$1,069,662.05 for 1996 and \$677,606.19 for 1995	\$ <u>5,136,999.64</u>	\$ <u>4,423,988.08</u>
Total operating revenue	<u>5,136,999.64</u>	<u>4,423,988.08</u>
Operating expenses:		
Administrative and general	1,119,648.56	753,012.34
Nursing services	1,854,721.93	1,383,114.85
Central services	194,028.23	137,772.77
Ancillary departments	708,914.51	630,655.37
Dietary	444,560.18	346,821.52
Activities	53,833.15	39,802.63
Social services	46,794.29	24,138.48
Housekeeping services	203,507.56	162,099.70
Laundry and linens	100,554.59	62,653.25
Plant operations and maintenance	288,384.50	224,850.22
Depreciation	261,767.81	166,267.38
Amortization of preopening expenses	54,343.47	42,451.92
Bad debt expense	65,683.84	238,332.13
Other operating expenses	<u>2,956.10</u>	<u>3,105.00</u>
Total operating expenses	<u>5,399,698.72</u>	<u>4,215,077.56</u>
Operating income (loss)	<u>(262,699.08)</u>	<u>208,910.52</u>
Nonoperating revenues (expenses):		
Interest revenue	68,230.73	22,215.38
Miscellaneous revenue	15,994.57	5,813.27
Interest expense	(255,748.99)	(172,360.39)
Loss on disposal of fixed assets	(6,563.87)	(6,933.99)
Amortization of bond issuance costs	(3,576.50)	(1,753.80)
Cable television expense	(4,054.94)	-
Miscellaneous expense	<u>(39.80)</u>	<u>(650.67)</u>
Total nonoperating revenues (expenses)	<u>(185,758.80)</u>	<u>(153,670.20)</u>

TENNESSEE STATE VETERANS' HOMES BOARD
 STATEMENTS OF REVENUES, EXPENSES, AND
 CHANGES IN EQUITY
 FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Net income (loss)	(448,457.88)	55,240.32
Other changes in equity:		
Contributed capital (Note 6)	2,902,555.52	2,830,115.50
Contributed fixed assets - land (Note 6)	<u>-</u>	<u>160,544.00</u>
Net increase in equity	2,454,097.64	3,045,899.82
Equity, July 1	<u>5,281,601.20</u>	<u>2,235,701.38</u>
Equity, June 30	\$ <u><u>7,735,698.84</u></u>	\$ <u><u>5,281,601.20</u></u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995

	June 30, 1996	June 30, 1995
Cash flows from operating activities:		
Operating income (loss)	\$ (262,699.08)	\$ 208,910.52
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	316,111.28	208,719.30
Miscellaneous nonoperating revenues	15,994.57	5,813.27
Miscellaneous nonoperating expenses	(4,094.74)	(650.67)
Changes in assets and liabilities:		
(Increase) decrease in resident accounts receivable - private	121,530.88	(87,996.79)
(Increase) in resident accounts receivable - U.S. Department of Veterans Affairs	(159,422.25)	(26,870.02)
(Increase) decrease in resident accounts receivable - primary government	95,439.31	(11,408.88)
Increase (decrease) in allowance for doubtful accounts	(259,806.50)	129,755.75
(Increase) decrease in Medicare cost settlement receivable	(339,692.88)	7,832.00
(Increase) in Medicaid cost settlement receivable	(26,900.00)	(2,833.76)
(Increase) decrease in due from U.S. Department of Veterans Affairs	949,111.48	(1,360,544.00)
(Increase) in inventories	(33,912.92)	-
(Increase) in prepaid items	(2,042.34)	(6,927.90)
(Increase) in deposit with management company	-	(10,000.00)
Increase (decrease) in accounts payable and accruals	189,466.82	(120,091.57)
Increase (decrease) in due to primary government	(70,672.22)	580,923.54
Increase in amounts advanced by management company	73,133.77	-
Increase (decrease) in Medicare cost settlement payable	(35,630.72)	35,630.72
Increase in amounts held in custody for others	23,065.81	6,313.27
Increase (decrease) in Medicaid current financing	(35,272.26)	1,594.70
Total adjustments	816,407.09	(650,741.04)
Net cash provided (used) by operating activities	553,708.01	(441,830.52)
Cash flows from capital and capital-related financing activities:		
Contributed capital	2,902,555.52	2,830,115.50
Sale of fixed assets	-	1,060.00
Purchase of fixed assets	(3,262,880.56)	(4,215,354.64)
Principal paid on bonds	(60,000.00)	(60,000.00)
Interest paid on bonds	(377,467.50)	(173,303.29)
Capital lease payments	-	(1,728.00)
Proceeds from revenue bonds	-	3,212,977.44
Bond issuance costs paid	-	(116,740.36)
Preopening expenses paid	(167,282.94)	-
Net cash provided (used) by capital and capital-related financing activities	(965,075.48)	1,477,026.65

TENNESSEE STATE VETERANS' HOMES BOARD
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Cash flows from investing activities:		
Interest received	<u>68,230.73</u>	<u>22,215.38</u>
Net cash provided by investing activities	<u>68,230.73</u>	<u>22,215.38</u>
Net increase (decrease) in cash	(343,136.74)	1,057,411.51
Cash, July 1	<u>1,729,022.12</u>	<u>671,610.61</u>
Cash, June 30	\$ <u><u>1,385,885.38</u></u>	\$ <u><u>1,729,022.12</u></u>
Noncash investing, capital, and financing activities:		
Loss on disposal of fixed assets	\$ (6,563.87)	\$ (6,933.99)
Contributed fixed assets - land	<u>-</u>	<u>160,544.00</u>
Total noncash investing, capital, and financing activities	\$ <u><u>(6,563.87)</u></u>	\$ <u><u>153,610.01</u></u>

The notes to the financial statements are an integral part of this statement.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements
June 30, 1996, and June 30, 1995

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. At June 30, 1996, two facilities, located in Murfreesboro and Humboldt, were operating. Construction of the facility in Humboldt was completed and the facility opened February 7, 1996. The ten-member board has appointed an executive director and contracted with a management company to carry out its operations.

The Tennessee State Veterans' Homes Board is a component unit of the State of Tennessee (the primary government). Although it is a separate legal entity, the board is appointed by the Governor, and its budget is approved by the state. In addition, the issuance of bonds must be approved by the State Funding Board. The board is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The Tennessee Veterans Home Foundation, Inc., was established by the Tennessee State Veterans' Homes Board to receive donations for the benefit of the facilities' residents. Because the board was developed solely to benefit the residents of Tennessee State Veterans' Homes, the foundation is included in the board's financial statements.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee State Veterans' Homes Board follows all applicable GASB pronouncements, as well as applicable private-sector pronouncements issued on or before November 30, 1989.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

C. Measurement Focus and Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under the accrual basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

D. Investment

The investment is a certificate of deposit which is stated at cost.

E. Inventories

Inventories of medical, dietary, and housekeeping supplies are determined by physical count and are valued at cost using the first-in/first-out method.

F. Restricted Assets

Certain assets of the Tennessee State Veterans' Homes Board are classified as restricted assets because their use is restricted by applicable bond covenants.

G. Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of unamortized bond discount.

H. Fixed Assets and Depreciation

Fixed assets are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. Donated fixed assets are stated at fair value at the date of donation. The board's policy is to capitalize interest expense incurred during the construction of assets.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

NOTE 2. DEPOSITS

The board's bank accounts are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1996, the carrying amount of the board's deposits was \$430,988.86, and the bank balance was \$438,371.01. The entire bank balance was insured.

At June 30, 1996, the carrying amount and the bank balance of the Tennessee Veterans Home Foundation, Inc.'s deposits were \$53,040.18. This amount includes a \$25,000.00 long-term certificate of deposit. The entire bank balance was insured.

At June 30, 1995, the carrying amount of the board's deposits was \$213,100.73, and the bank balance was \$232,859.15. The entire bank balance was insured or collateralized with securities held by the board or by its agent in the board's name. From July 1, 1994, through April 6, 1995, the board had uncollateralized amounts as high as \$507,274.00. The uncollateralized amounts were related to a court decision rendered by the U.S. Court of Appeals for the Eighth Circuit which raised a question about the enforceability of security interests in collateral pledged to secure deposits held in financial institutions. The court decision was based on Section 1823(e) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Because of FIRREA, it was uncertain whether the board had any priority claim to the collateral pledged to secure deposits in excess of FDIC insurance coverage. The board's security agreement was revised as of April 7, 1995, to meet these requirements.

At June 30, 1995, the carrying amount and bank balance of the Tennessee Veterans Home Foundation, Inc.'s deposits were \$41,263.19. This amount includes a \$25,000.00 long-term certificate of deposit. The entire bank balance was insured.

At June 30, 1996, and June 30, 1995, the board had deposits in the Tennessee Local Government Investment Pool of \$924,806.34 and \$1,498,408.20, respectively.

At June 30, 1996, petty cash on hand was \$2,050.00. At June 30, 1995, petty cash on hand was \$1,250.00.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

NOTE 3. RESTRICTED ASSETS

The balances of the board's restricted asset accounts are as follows:

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Cash in depository account	\$ 142,044.79	\$ 138,298.66
Revenue bond revenue account	241,899.99	811,265.71
Revenue bond debt service account	109,677.73	66,000.00
Revenue bond debt service reserve account	513,228.62	513,228.62
Revenue bond repair and replacement account	<u>60,000.00</u>	<u>-</u>
	<u>\$1,066,851.13</u>	<u>\$1,528,792.99</u>

NOTE 4. BONDS PAYABLE

Bonds payable consisted of the following:

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Revenue bonds, Series 1989, 6.3% to 7.5%, due from 1997 to final maturity in 2014 (net of unamortized discount of \$36,222.93 for 1996 and \$38,282.97 for 1995)	\$2,203,777.07	\$2,261,717.03
Revenue bonds, Series 1994, 4.75% to 6.75%, due from 1997 to final maturity in 2021 (net of unamortized discount of \$11,552.61 for 1996 and \$12,022.56 for 1995)	<u>3,213,447.37</u>	<u>3,212,977.44</u>
Total bonds payable	<u>\$5,417,224.44</u>	<u>\$5,474,694.47</u>

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

Debt-service requirements to maturity of the bonds payable at June 30, 1996, are as follows:

For the Year(s) Ending June 30	Principal	Interest	Total
1997	\$ 115,000.00	\$ 373,447.50	\$ 488,447.50
1998	120,000.00	366,652.50	486,652.50
1999	150,000.00	359,322.50	509,322.50
2000	155,000.00	350,172.50	505,172.50
2001	160,000.00	340,442.50	500,442.50
2002-2021	<u>4,765,000.00</u>	<u>3,551,517.50</u>	<u>8,316,517.50</u>
	<u>\$5,465,000.00</u>	<u>\$5,341,555.00</u>	<u>\$10,806,555.00</u>

NOTE 5. ADVANCE FROM PRIMARY GOVERNMENT

The board received a \$200,000 advance from the primary government to be repaid from excess revenues from the operations of the Murfreesboro facility. No interest is accrued. As of June 30, 1996, and June 30, 1995, excess revenues from operations at the Murfreesboro facility were \$74,491.19 and \$53,116.46, respectively. The board is in the process of addressing a repayment plan to the primary government.

NOTE 6. CONTRIBUTED CAPITAL

Contributed capital represents equity acquired through capital grants and capital contributions. The U.S. Department of Veterans Affairs has provided grant assistance for constructing and equipping the Humboldt and Murfreesboro facilities.

During the year ended June 30, 1996, the grant contribution from the U.S. Department of Veterans Affairs for the Humboldt facility was \$2,152,555.52. In addition, the board received \$750,000.00 in appropriations from the State of Tennessee. During the year ended June 30, 1995, the grant contribution from the U.S. Department of Veterans Affairs was \$2,709,952.80. In addition, the board received \$120,162.70 in appropriations from the State of Tennessee. Furthermore, on July 7, 1994, the City of Humboldt donated land valued at \$160,544.00 for the Humboldt facility. Total contributed capital for the Humboldt facility is \$5,893,215.02.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

All capital contributed for the Murfreesboro facility was received prior to July 1, 1994. The total grant contribution from the U.S. Department of Veterans Affairs was \$3,226,426.38. In addition, the U.S. Department of Veterans Affairs donated land valued at \$33,700.00 for the Murfreesboro facility. Total contributed capital for the Murfreesboro facility is \$3,260,126.38.

NOTE 7. DEFINED BENEFIT PENSION PLAN

A. Plan Description

After successful completion of a six-month probationary period, all employees of the Tennessee State Veterans' Homes Board are enrolled in the Tennessee Consolidated Retirement System (TCRS), an agent multiple-employer plan. TCRS acts as a common investment and administrative agent for political subdivisions in the state. The Tennessee State Veterans' Homes Board participates in the TCRS as a political subdivision and is liable for the costs associated with the operation and administration of its plan. The board's payroll for employees covered by the plan for the year ended June 30, 1996, was \$1,147,682, and total payroll was \$2,306,656. At June 30, 1995, covered payroll was \$1,039,565, and total payroll was \$1,666,083.

The TCRS administers a defined benefit retirement plan covering teachers and general employees of the state, higher education employees, and employees of participating political subdivisions. Membership in the system is mandatory for all participants' full-time employees. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members may retire at age 60 with five years' service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Members are vested after five years of service. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefit provisions are established and amended by state statute. Amendments to the TCRS plan are not applicable to a political subdivision unless approved by the political subdivision's governing body. The Tennessee State Veterans' Homes Board pays the total cost of pension contributions for its employees.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

B. Funding Status and Progress

The "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Tennessee State Veterans' Homes Board's pension program as administered by TCRS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The measure is independent of the actuarial funding method used to determine contributions to the system.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1995, and an actuarial update performed as of June 30, 1996. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8 percent a year compounded annually, (b) projected salary increases of 7 percent a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6 percent annual increase in the Social Security wage base, and (d) projected post-retirement benefit increases of 3 percent of the retiree's initial benefit.

Total assets in excess of pension benefit obligation applicable to the Tennessee State Veterans' Homes Board employees was \$229,072 at June 30, 1996, and \$117,615 at June 30, 1995, as follows:

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Pension benefit obligation:		
Retirees/beneficiaries currently receiving benefits and terminated employees entitled to but not yet receiving benefits	\$77,179	\$68,808
Current employees:		
Accumulated employee contributions including allocated investment earnings	43,940	41,848

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

Employer-financed vested	21,110	16,569
Employer-financed nonvested	<u>47,040</u>	<u>36,920</u>
Total pension benefit obligation	189,269	164,145
Net assets available for benefits, at cost or amortized cost (market value is \$456,399 at June 30, 1996, and \$305,760 at June 30, 1995)	<u>418,341</u>	<u>281,760</u>
Assets in excess of pension benefit obligation	<u>\$229,072</u>	<u>\$117,615</u>

C. Actuarially Determined Contribution Requirements and Contributions Made

It is the policy of the Board of Trustees of TCRS to fund pension benefits by actuarially determined contributions intended to provide funding for both the normal cost and the unfunded actuarial accrued liability cost, so sufficient assets will be available to pay benefits when due. The frozen initial liability method, a projected-benefit cost method, is used to value the plan. All unfunded actuarial accrued liabilities are amortized over a 30-year period which began on July 1, 1990. The accrued liability for basic benefits and cost-of-living benefits is amortized as a level-dollar amount.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described in B above.

The contribution to the TCRS for the year ended June 30, 1996, was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1993. The contribution consisted of (a) \$93,766 in normal costs (8.17% of current covered payroll), (b) \$8,195 in amortization of the unfunded actuarial accrued liability (.71% of current covered payroll), and (c) \$2,363 in administrative costs (.21% of current covered payroll). The Tennessee State Veterans' Homes Board contributed \$104,324 (9.09% of current covered payroll). The actuarial valuation as of June 30, 1993, computed contribution rates effective July 1, 1994, through June 30, 1996. The actuarial valuation as of June 30, 1995, determined the rates for a two-year period beginning July 1, 1996.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

Actuarially required contributions for the year ended June 30, 1995, totaled \$94,496, consisting of board contributions of \$94,496 (9.09% of covered payroll). The contribution consisted of (a) \$84,932 in normal costs (8.17% of current covered payroll) and (b) \$9,564 in amortization of the unfunded actuarial accrued liability (.92% of current covered payroll).

D. Trend Information

Three-year historical trend information designed to give an indication of the progress made by the Tennessee State Veterans' Homes Board in accumulating sufficient assets to pay benefits when due is presented below for fiscal years 1996, 1995, and 1994.

	(1)	(2)	(3)	(4)	(5)	(6)
						Unfunded (Assets in Excess of) PBO as a Percentage of Covered Payroll (4)÷(5)
Fiscal Year	Net Assets Available For Benefits	Pension Benefit Obligation	Percentage Funded (1)÷(2)	Unfunded (Assets in Excess of) PBO (2)-(1)	Annual Covered Payroll	
1996	\$418,341	\$189,269	221.03%	\$(229,072)	\$1,147,682	(19.96%)
1995	\$281,760	\$164,145	171.65%	\$(117,615)	\$1,039,565	(11.31%)
1994	\$200,775	\$151,187	132.80%	\$ (49,588)	\$ 909,592	(5.45%)

In addition, for the two years ended June 30, 1996, and June 30, 1995, the board's contributions to the TCRS, made in accordance with actuarially determined requirements, were 9.09% of annual covered payroll and 7% of annual covered payroll for the year ended June 30, 1994. Ten-year historical trend information for the retirement system as a whole may be found in the *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report* for the year ended June 30, 1996.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

NOTE 8. RISK MANAGEMENT

The board is exposed to various risks of loss related to general liability; automobile liability; professional malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

- A. The board carries surety bond coverage for risks of employee dishonesty. Settled claims resulting from this risk have not exceeded commercial insurance coverage in any of the past three fiscal years.
- B. The buildings and contents are insured by the State of Tennessee. The board has a \$5,000 deductible per occurrence, with policy limits of \$10,161,500 for the buildings and \$1,232,400 for the contents.

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the State of Tennessee general fund to provide for any property losses other than the commercial insurance coverage.

- C. The board participates in the State of Tennessee's Claims Award Fund. The Claims Award Fund is an internal service fund in which the state has set aside assets for claim settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.
- D. The board has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements (Cont.)
June 30, 1996, and June 30, 1995

The plan is administered by the State of Tennessee, using a separately established fund. To this fund, premiums of participating units are deposited and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. Employees have the option of obtaining insurance through either Blue Cross and Blue Shield of Tennessee or Prudential Insurance. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Monthly insurance premiums are \$161.95 for single coverage and \$300.47 for family coverage under Blue Cross and \$138.81 for single coverage and \$257.61 for family coverage under Prudential. The board's obligation under the plan is limited to \$138.81 for Blue Cross coverage and \$118.98 for Prudential coverage. The employees are responsible for the remainder of the premium. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims.

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995

	June 30, 1996				June 30, 1995			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
ASSETS								
Current assets:								
Cash	\$ 207,737.19	\$ 83,256.88	\$ 28,040.18	\$ 319,034.25	\$ 183,965.94	\$ -	\$ 16,263.19	\$ 200,229.13
Investment	-	-	25,000.00	25,000.00	-	-	25,000.00	25,000.00
Resident accounts receivable:								
Private	612,901.69	96,129.00	-	709,030.69	830,561.57	-	-	830,561.57
U.S. Department of Veterans Affairs	238,130.40	150,878.52	-	389,008.92	229,586.67	-	-	229,586.67
Primary government	82,202.09	47,790.60	-	129,992.69	225,432.00	-	-	225,432.00
Allowance for doubtful accounts	(224,149.25)	(3,800.00)	-	(227,949.25)	(487,755.75)	-	-	(487,755.75)
Medicare cost settlement receivable	276,818.88	62,874.00	-	339,692.88	-	-	-	-
Medicaid cost settlement receivable	29,733.76	-	-	29,733.76	2,833.76	-	-	2,833.76
Due from U.S. Department of Veterans Affairs	-	411,432.52	-	411,432.52	-	1,360,544.00	-	1,360,544.00
Inventories	29,413.00	18,971.06	-	48,384.06	14,471.14	-	-	14,471.14
Prepaid items	7,401.16	1,569.08	-	8,970.24	6,927.90	-	-	6,927.90
Total current assets	1,260,188.92	869,101.66	53,040.18	2,182,330.76	1,006,023.23	1,360,544.00	41,263.19	2,407,830.42
Restricted assets:								
Cash	528,859.37	537,991.76	-	1,066,851.13	637,447.79	891,345.20	-	1,528,792.99
Total restricted assets	528,859.37	537,991.76	-	1,066,851.13	637,447.79	891,345.20	-	1,528,792.99
Other assets:								
Deposit with management company	10,000.00	-	-	10,000.00	10,000.00	-	-	10,000.00
Unamortized bond issuance costs	30,838.88	112,177.23	-	143,016.11	32,592.68	116,740.36	-	149,333.04
Unamortized preopening expenses	-	153,032.94	-	153,032.94	40,093.47	-	-	40,093.47
Total other assets	40,838.88	265,210.17	-	306,049.05	82,686.15	116,740.36	-	199,426.51
Fixed assets:								
Land	33,700.00	160,544.00	-	194,244.00	33,700.00	160,544.00	-	194,244.00
Buildings and improvements	3,938,618.55	6,845,259.00	-	10,783,877.55	3,924,130.95	-	-	3,924,130.95
Accumulated depreciation - buildings and improvements	(527,412.57)	(73,371.02)	-	(600,783.59)	(421,884.85)	-	-	(421,884.85)
Furniture and equipment	632,495.39	720,813.30	-	1,353,308.69	616,876.81	-	-	616,876.81
Accumulated depreciation - furniture and equipment	(310,725.61)	(27,000.09)	-	(337,725.70)	(251,965.88)	-	-	(251,965.88)
Construction in progress	-	-	-	-	-	4,209,644.07	-	4,209,644.07
Total fixed assets	3,766,675.76	7,626,245.19	-	11,392,920.95	3,900,857.03	4,370,188.07	-	8,271,045.10
Total assets	\$ 5,596,562.93	\$ 9,298,548.78	\$ 53,040.18	\$ 14,948,151.89	\$ 5,627,014.20	\$ 6,738,817.63	\$ 41,263.19	\$ 12,407,095.02
LIABILITIES AND EQUITY								
Liabilities:								
Current liabilities:								
Accounts payable and accruals	\$ 433,938.40	\$ 270,911.70	\$ -	\$ 704,850.10	\$ 428,289.97	\$ 86,755.25	\$ -	\$ 515,045.22
Due to primary government	319,842.98	408,536.81	-	728,379.79	350,626.57	448,425.44	-	799,052.01
Amounts advanced by management company	37,201.78	35,931.99	-	73,133.77	-	-	-	-
Medicare cost settlement payable	-	-	-	-	35,630.72	-	-	35,630.72
Amounts held in custody for others	77,633.00	11,231.95	-	88,864.95	65,799.14	-	-	65,799.14
Medicaid current financing	-	-	-	-	35,272.26	-	-	35,272.26
Bonds payable	65,000.00	50,000.00	-	115,000.00	60,000.00	-	-	60,000.00
Total current liabilities	933,616.16	776,612.45	-	1,710,228.61	975,618.66	535,180.69	-	1,510,799.35

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1996, AND JUNE 30, 1995

	June 30, 1996				June 30, 1995			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Noncurrent liabilities:								
Bonds payable, net of unamortized discount	2,138,777.07	3,163,447.37	-	5,302,224.44	2,201,717.03	3,212,977.44	-	5,414,694.47
Advance from primary government	200,000.00	-	-	200,000.00	200,000.00	-	-	200,000.00
Total noncurrent liabilities	2,338,777.07	3,163,447.37	-	5,502,224.44	2,401,717.03	3,212,977.44	-	5,614,694.47
Total liabilities	3,272,393.23	3,940,059.82	-	7,212,453.05	3,377,335.69	3,748,158.13	-	7,125,493.82
Equity:								
Contributed capital	3,260,126.38	5,893,215.02	-	9,153,341.40	3,260,126.38	2,990,659.50	-	6,250,785.88
Retained earnings:								
Reserved for foundation	-	-	53,040.18	53,040.18	-	-	41,263.19	41,263.19
Unreserved	(935,956.68)	(534,726.06)	-	(1,470,682.74)	(1,010,447.87)	-	-	(1,010,447.87)
Total retained earnings	(935,956.68)	(534,726.06)	53,040.18	(1,417,642.56)	(1,010,447.87)	-	41,263.19	(969,184.68)
Total equity	2,324,169.70	5,358,488.96	53,040.18	7,735,698.84	2,249,678.51	2,990,659.50	41,263.19	5,281,601.20
Total liabilities and equity	<u>\$ 5,596,562.93</u>	<u>\$ 9,298,548.78</u>	<u>\$ 53,040.18</u>	<u>\$ 14,948,151.89</u>	<u>\$ 5,627,014.20</u>	<u>\$ 6,738,817.63</u>	<u>\$ 41,263.19</u>	<u>\$ 12,407,095.02</u>

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995

	For the Year Ended June 30, 1996				For the Year Ended June 30, 1995			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Operating revenue:								
Resident service revenue less contractual adjustments of \$1,069,662.05 for 1996 and \$677,606.19 for 1995	\$ 4,567,634.98	\$ 569,364.66	\$ -	\$ 5,136,999.64	\$ 4,423,988.08	\$ -	\$ -	\$ 4,423,988.08
Total operating revenue	4,567,634.98	569,364.66	-	5,136,999.64	4,423,988.08	-	-	4,423,988.08
Operating expenses:								
Administrative and general	841,449.55	278,199.01	-	1,119,648.56	753,012.34	-	-	753,012.34
Nursing services	1,530,817.57	323,904.36	-	1,854,721.93	1,383,114.85	-	-	1,383,114.85
Central services	150,424.08	43,604.15	-	194,028.23	137,772.77	-	-	137,772.77
Ancillary departments	660,653.36	48,261.15	-	708,914.51	630,655.37	-	-	630,655.37
Dietary	371,580.43	72,979.75	-	444,560.18	346,821.52	-	-	346,821.52
Activities	41,710.84	12,122.31	-	53,833.15	39,802.63	-	-	39,802.63
Social services	28,626.86	18,167.43	-	46,794.29	24,138.48	-	-	24,138.48
Housekeeping services	159,904.31	43,603.25	-	203,507.56	162,099.70	-	-	162,099.70
Laundry and linens	79,775.34	20,779.25	-	100,554.59	62,653.25	-	-	62,653.25
Plant operations and maintenance	221,305.92	67,078.58	-	288,384.50	224,850.22	-	-	224,850.22
Depreciation	165,286.38	96,481.43	-	261,767.81	166,267.38	-	-	166,267.38
Amortization of preopening expenses	40,093.47	14,250.00	-	54,343.47	42,451.92	-	-	42,451.92
Bad debt expense	61,883.84	3,800.00	-	65,683.84	238,332.13	-	-	238,332.13
Other operating expenses	2,689.10	267.00	-	2,956.10	3,105.00	-	-	3,105.00
Total operating expenses	4,356,201.05	1,043,497.67	-	5,399,698.72	4,215,077.56	-	-	4,215,077.56
Operating income (loss)	211,433.93	(474,133.01)	-	(262,699.08)	208,910.52	-	-	208,910.52
Nonoperating revenues (expenses):								
Interest revenue	40,998.92	25,325.50	1,906.31	68,230.73	20,730.85	-	1,484.53	22,215.38
Miscellaneous revenue	2,029.15	-	13,965.42	15,994.57	4,523.27	-	1,290.00	5,813.27
Interest expense	(171,653.14)	(84,095.85)	-	(255,748.99)	(172,360.39)	-	-	(172,360.39)
Loss on disposal of fixed assets	(6,563.87)	-	-	(6,563.87)	(6,933.99)	-	-	(6,933.99)
Amortization of bond issuance costs	(1,753.80)	(1,822.70)	-	(3,576.50)	(1,753.80)	-	-	(1,753.80)
Cable television expense	-	-	(4,054.94)	(4,054.94)	-	-	-	-
Miscellaneous expense	-	-	(39.80)	(39.80)	-	-	(650.67)	(650.67)
Total nonoperating revenues (expenses)	(136,942.74)	(60,593.05)	11,776.99	(185,758.80)	(155,794.06)	-	2,123.86	(153,670.20)
Net income (loss)	74,491.19	(534,726.06)	11,776.99	(448,457.88)	53,116.46	-	2,123.86	55,240.32
Other changes in equity:								
Contributed capital	-	2,902,555.52	-	2,902,555.52	-	2,830,115.50	-	2,830,115.50
Contributed fixed assets - land	-	-	-	-	-	160,544.00	-	160,544.00
Net increase in equity	74,491.19	2,367,829.46	11,776.99	2,454,097.64	53,116.46	2,990,659.50	2,123.86	3,045,899.82
Equity, July 1	2,249,678.51	2,990,659.50	41,263.19	5,281,601.20	2,196,562.05	-	39,139.33	2,235,701.38
Equity, June 30	\$ 2,324,169.70	\$ 5,358,488.96	\$ 53,040.18	\$ 7,735,698.84	\$ 2,249,678.51	\$ 2,990,659.50	\$ 41,263.19	\$ 5,281,601.20

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995

	For the Year Ended June 30, 1996				For the Year Ended June 30, 1995			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Cash flows from operating activities:								
Operating income (loss)	\$ 211,433.93	\$ (474,133.01)	\$ -	\$ (262,699.08)	\$ 208,910.52	\$ -	\$ -	\$ 208,910.52
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:								
Depreciation and amortization	205,379.85	110,731.43	-	316,111.28	208,719.30	-	-	208,719.30
Miscellaneous nonoperating revenues	2,029.15	-	13,965.42	15,994.57	4,523.27	-	1,290.00	5,813.27
Miscellaneous nonoperating expenses	-	-	(4,094.74)	(4,094.74)	-	-	(650.67)	(650.67)
Changes in assets and liabilities:								
(Increase) decrease in resident accounts receivable - private	217,659.88	(96,129.00)	-	121,530.88	(87,996.79)	-	-	(87,996.79)
(Increase) in resident accounts receivable - U.S. Department of Veterans Affairs	(8,543.73)	(150,878.52)	-	(159,422.25)	(26,870.02)	-	-	(26,870.02)
(Increase) decrease in resident accounts receivable - primary government	143,229.91	(47,790.60)	-	95,439.31	(11,408.88)	-	-	(11,408.88)
Increase (decrease) in allowance for doubtful accounts	(263,606.50)	3,800.00	-	(259,806.50)	129,755.75	-	-	129,755.75
(Increase) decrease in Medicare cost settlement receivable	(276,818.88)	(62,874.00)	-	(339,692.88)	7,832.00	-	-	7,832.00
(Increase) in Medicaid cost settlement receivable	(26,900.00)	-	-	(26,900.00)	(2,833.76)	-	-	(2,833.76)
(Increase) decrease in due from U.S. Department of Veterans Affairs	-	949,111.48	-	949,111.48	-	(1,360,544.00)	-	(1,360,544.00)
(Increase) in inventories	(14,941.86)	(18,971.06)	-	(33,912.92)	-	-	-	-
(Increase) in prepaid items	(473.26)	(1,569.08)	-	(2,042.34)	(6,927.90)	-	-	(6,927.90)
(Increase) in deposit with management company	-	-	-	-	(10,000.00)	-	-	(10,000.00)
Increase (decrease) in accounts payable and accruals	5,310.33	184,156.49	-	189,466.82	(206,846.82)	86,755.25	-	(120,091.57)
Increase (decrease) in due to primary government	(30,783.59)	(39,888.63)	-	(70,672.22)	132,498.10	448,425.44	-	580,923.54
Increase in amounts advanced by management company	37,201.78	35,931.99	-	73,133.77	-	-	-	-
Increase (decrease) in Medicare cost settlement payable	(35,630.72)	-	-	(35,630.72)	35,630.72	-	-	35,630.72
Increase in amounts held in custody for others	11,833.86	11,231.95	-	23,065.81	6,313.27	-	-	6,313.27
Increase (decrease) in Medicaid current financing	(35,272.26)	-	-	(35,272.26)	1,594.70	-	-	1,594.70
Total adjustments	(70,326.04)	876,862.45	9,870.68	816,407.09	173,982.94	(825,363.31)	639.33	(650,741.04)
Net cash provided (used) by operating activities	141,107.89	402,729.44	9,870.68	553,708.01	382,893.46	(825,363.31)	639.33	(441,830.52)
Cash flows from capital and capital-related financing activities:								
Contributed capital	-	2,902,555.52	-	2,902,555.52	-	2,830,115.50	-	2,830,115.50
Sale of fixed assets	-	-	-	-	1,060.00	-	-	1,060.00
Purchase of fixed assets	(37,668.98)	(3,225,211.58)	-	(3,262,880.56)	(5,710.57)	(4,209,644.07)	-	(4,215,354.64)
Principal paid on bonds	(60,000.00)	-	-	(60,000.00)	(60,000.00)	-	-	(60,000.00)
Interest paid on bonds	(169,255.00)	(208,212.50)	-	(377,467.50)	(173,303.29)	-	-	(173,303.29)
Capital lease payments	-	-	-	-	(1,728.00)	-	-	(1,728.00)
Proceeds from revenue bonds	-	-	-	-	-	3,212,977.44	-	3,212,977.44
Bond issuance costs paid	-	-	-	-	-	(116,740.36)	-	(116,740.36)
Preopening expenses paid	-	(167,282.94)	-	(167,282.94)	-	-	-	-
Net cash provided (used) by capital and capital-related financing activities	(266,923.98)	(698,151.50)	-	(965,075.48)	(239,681.86)	1,716,708.51	-	1,477,026.65

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1996, AND JUNE 30, 1995

	For the Year Ended June 30, 1996				For the Year Ended June 30, 1995			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Cash flows from investing activities:								
Interest received	40,998.92	25,325.50	1,906.31	68,230.73	20,730.85	-	1,484.53	22,215.38
Net cash provided by investing activities	40,998.92	25,325.50	1,906.31	68,230.73	20,730.85	-	1,484.53	22,215.38
Net increase (decrease) in cash	(84,817.17)	(270,096.56)	11,776.99	(343,136.74)	163,942.45	891,345.20	2,123.86	1,057,411.51
Cash, July 1	821,413.73	891,345.20	16,263.19	1,729,022.12	657,471.28	-	14,139.33	671,610.61
Cash, June 30	<u>\$ 736,596.56</u>	<u>\$ 621,248.64</u>	<u>\$ 28,040.18</u>	<u>\$ 1,385,885.38</u>	<u>\$ 821,413.73</u>	<u>\$ 891,345.20</u>	<u>\$ 16,263.19</u>	<u>\$ 1,729,022.12</u>
Noncash investing, capital, and financing activities:								
Loss on disposal of fixed assets	\$ (6,563.87)	\$ -	\$ -	\$ (6,563.87)	\$ (6,933.99)	\$ -	\$ -	\$ (6,933.99)
Contributed fixed assets - land	-	-	-	-	-	160,544.00	-	160,544.00
Total noncash investing, capital, and financing activities	<u>\$ (6,563.87)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,563.87)</u>	<u>\$ (6,933.99)</u>	<u>\$ 160,544.00</u>	<u>\$ -</u>	<u>\$ 153,610.01</u>